

Chairman's Opening Statement – Hearing on S.271

Tuesday, March 8, 2005 -- 9:30 a.m.

Chairman Lott: The hearing will come to order. Good morning and thank you all for being here.

This morning's hearing will examine bipartisan legislation (S.271) I have introduced along with Senators McCain, Feingold, Collins, Schumer, Lieberman, Snowe, Jeffords and Salazar. Today, we will look at the proliferation of organizations whose purposes are to influence the outcome of federal elections but who have chosen to either ignore current law or found a way to circumvent it. These entities are commonly known as 527s, referring to the Section of the Internal Revenue Code under which they are required to register.

Last year, I held an FEC oversight hearing where the 527 issue was discussed at length. I was told that Congress needed to change the law to deal with the problem. I was told the FEC was powerless unless we changed the law. So we are planning to do just that – change the law. I believe this issue must be resolved before we have a campaign finance train wreck in the 2006 and 2008 elections cycles.

Many of us thought that when McCain/Feingold became law, the issue of campaign finance reform was finally settled. Although McCain/Feingold breathed new life into 527s, it has also allowed them to operate without a clear set of rules. Some 527s are permitted to raise soft money, while

others are not. Some 527s register with the FEC while others do not. Some 527s disclose finances on a regular basis, others do not.

Truth be told, I was never a cheerleader for the McCain/Feingold bill. In fact, I was one of the 41 Members who voted against it. But now it is the law of the land. If its goal to eliminate soft money is to be achieved, I believe that all 527s that attempt to influence the election or defeat of FEDERAL CANDIDATES ought to be on a level playing field and should be required to register with the Federal Election Commission unless they fall into certain narrow exceptions.

Although McCain/Feingold put the political party committees out of the soft money business, an unintended byproduct of that law is that soft money got outsourced FROM the parties TO the 527s. As a result, we've allowed newly created 527s to perform the same activities that the political party committees once did and in fact, are on track to raise more money than political parties ever raised. We've simply shifted the money from one side of the street to the other. And these 527 groups are on both sides of the aisle -- from the Swift Boat Veterans to Moveon.org.

I want to draw your attention to a chart that appeared in the newspaper just before the 2004 general election. This chart shows just how complex this whole mess has become. Following the money trail is dizzying. On the left side of the chart we have the "old system" when individuals gave contributions directly to the national party committees. All of this money was fully disclosed on a monthly basis and we had sunshine. Under

today's regime, these same individuals give tens of millions of dollars to a myriad of shadowy, intertwined 527 organizations that, at best, disclose their finances only sporadically, and at worst do not disclose at all. This is what I call "unintended consequences" and we need to fix that.

The bottom line is that unregistered 527s have merely begun to scratch the surface. By 2006, these groups will have an exponential effect on our federal election process and by 2008, their effect will be cataclysmic -- pumping hundreds of millions of dollars, maybe even a billion dollars, into attack ads. We've shifted power from the political parties to shadowy 527s who are now setting the agenda for this country's electoral process. This is fundamentally wrong. The ones who *should* be setting the issue agenda are candidates and the political parties they represent.

The bill we've introduced levels the playing field among those 527 organizations who participate in the federal election process. If an organization claims a tax exemption under section 527 and attempts to influence the outcome of a federal election, then that organization will be required to register and report its financial activity to the FEC. More importantly, they will be subject to the same limits as the political parties.

There is little doubt that the political party structure is being significantly weakened by all of these 527s. I want to hear from our witnesses if they believe we need to take a fresh look at the political party structure. Do we need to strengthen the political parties while at the same time, regulating these unaccountable, unregistered 527s which are funded by very wealthy

individuals? Because it seems to me that political parties and the actual candidates that they represent ought to be the ones who are empowered to set the issue agenda for our elections – not unaccountable 527s.

The witnesses today are well versed on the 527 matter and I look forward to hearing their views on the legislation. I don't claim that this legislation is the panacea for the 527 problem – but it's a good start. It's my hope we can hold a productive hearing today, review what we learn and move this bill forward in short order.